ABSTRACT

This research is aimed at studying the investment performance and ranking of unit trust funds in Malaysia. This includes an investigation into: their consistency of performance over time, the degree of risk diversification, the stability of the funds' systematic risk over time, whether the funds adhere to their stated objectives and whether fund managers have the ability to predict security prices. Finally the impact of fund characteristics (such as age, size, portfolio turnover and expense ratio) on investment performance and systematic risk was investigated.

The findings revealed that for the ten year period from January 1984 to December 1993, the sample of twenty one unit trust funds (bumiputra and non bumiputra funds) as a whole performed worse that the market portfolio with the bumiputra funds being the best performers. Over time, the funds performed quite consistently and their systematic risks were stable. It was also shown that the funds held quite well diversified portfolios with systematic risks lower than that of the market portfolio.

Another insight discovered was that, the funds did not adhere very well to their stated objectives and hence could not be relied upon by investors as qualitative guide post for investment.

The research also shows that none of the fund managers could forecast security prices and all failed to outperform the naive buy and hold strategy with some funds showing significant poor forecasting ability.

Finally the research shows that the fund characteristic, expense ratio have a negative correlation with investment performance with the larger funds and funds that practice active trading being more risky. The older funds however, were more risk averse.